



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

MEMORANDUM FOR: Participating Administrative Entities (PAEs)
All Office of Affordable Housing Preservation Staff

FROM: Theodore K. Toon, Acting Deputy Assistant Secretary
Office of Affordable Housing Preservation, HY

SUBJECT: Underwriting Neighborhood Networks Centers

Background

The Department of Housing and Urban Development created the Neighborhood Networks Initiative in 1995 to promote self-sufficiency and provide computer access to low-income housing communities. For over a decade, Neighborhood Networks has delivered real results. Adults have launched careers, started micro-enterprises, and increased their incomes after completing training at a Neighborhood Networks Center. Access to computers and the Internet, and the ability to use technology effectively are critical in today's digital age. People who possess the tools and skills to compete in the global economy are at a distinct advantage over those who do not have them. What makes Neighborhood Networks so unique and effective is that technology access is made available onsite at the housing property.

This memo outlines how to underwrite a Neighborhood Networks Center as part of a Mark-to-Market (M2M) restructuring.

Smart Investment

For HUD, Neighborhood Networks supports homeownership and provides empowerment and self-sufficiency opportunities for low-income individuals and families as they make the transition from dependency to work. It also meets the goals of improving housing and expanding opportunities for families who want to better their quality of life. By creating economic and educational opportunities for residents, Neighborhood Networks increases the financial stability of affordable housing and the marketability of FHA-insured properties, thereby, improving the risk position for the FHA General Insurance Fund.

For Property owners and managers of HUD-insured and assisted housing, Neighborhood Networks is a smart investment that yields positive results. Many of them report that Neighborhood Networks Centers give them an edge in marketing their properties. Starting a Neighborhood Networks Center can attract new residents, help lower vacancy rates and stabilize tenancy. Centers also help reduce security and upkeep costs by giving residents a greater sense of pride and a greater

stake in the well-being of the community. A report published in July 2002 entitled, The Public Benefits of Affordable Housing With Services, was researched by Minnesota's largest non-profit provider of affordable housing with services, CommonBond Communities. It was found that every dollar invested in a housing with services program resulted in at least \$1.51 in social value.

Because of the proven effectiveness of the Neighborhood Networks program on the quality of life and opportunities of residents, HUD's Office of Affordable Housing Preservation (OAHP, formerly OMHAR) has supported the development, rehabilitation, and operations of numerous Neighborhood Networks Centers around the country. When warranted, OAHP will continue to support these Centers in the course of Mark-to-Market restructurings.

Under Mark-to Market, HUD can fund the development of a new Center, rehabilitate an existing space to become a Center, or rehabilitate an existing Center for ongoing operations. HUD can include the costs for the real estate (including the physical space build-out, including specialized wiring requirements or security features), and the operations of the Center (including utility costs, and up to and including a full-time staff person, if justified), but cannot include the costs of furniture, computers and equipment.

Prior to Underwriting a Neighborhood Networks Center

Each Multifamily Field Office has a Neighborhood Networks coordinator. In order to underwrite a Center in a restructuring, the coordinator must indicate his/her support for development or continued operation of a Center at the subject property. The coordinator must also believe that the ownership has the wherewithal to complete the steps necessary to securing a Center at the property.

The property owner and manager must meet with the tenants to establish a Neighborhood Network Center that will address their needs. Based on the results of this meeting the property owner/manager shall develop a Strategic Tracking and Reporting Tool (START) Business Plan.

The Neighborhood Networks Center START Business Plan must be approved by HUD (the coordinator in the local multifamily office).

Underwriting a Neighborhood Networks Center

The development or rehabilitation of space to house the Neighborhood Networks Center should be underwritten as a rehabilitation account item. Under certain circumstances, development or rehabilitation of a Center may qualify as a Significant New Addition.

The amount of operations funding for a Center should be determined by the cost of up to a full time staff person, and additional expenses needed for the successful operation of the Center (Capital items are not allowed). PAEs should underwrite by testing three options:

1. Include the cost of a staff person, and any additional expenses. If the Restructuring Plan results in a positive savings **and** rents are at market, PAEs can skip the next two options.

2. If Option 1 results in either negative savings or has exception rents, the PAE should place 5 years worth of expenses into an Operating Deficit Escrow (ODE) type of account to fund operations of the Neighborhood Networks Center. It is anticipated that interest on this escrow account will match OCAF increases. If the results of this Option results in Exception Rents less than 120% of FMR, Option 3 can be skipped
3. If Option 2 results in Exception Rents over 120% of FMR, the ODE should be reduced to 3 years' worth of coverage.

Guidelines for Restructuring Commitments and ODE Agreement

- The Center must be located on the designated HUD multifamily property (onsite) or in close proximity to it (offsite) for the purpose of serving the residents.
- The Center must be open for the minimum number of hours per the approved START Business Plan, including some evening and weekend hours.
- The Center must have at least one computer that is connected to the Internet and accessible to all residents of the designated multifamily property.
- The Neighborhood Networks Center must employ a staff person consistent with OAHP underwriting and the approved START Business Plan.
- The Center must offer educational and workforce development programs.
- The Center must complete annual assessments in START.
- The Center must attain the Certified levels of performance. The **Designated** (Level 1) center classification establishes minimum achievable standards for centers. This designation denotes that the Center has the tools for creating effective programs and services to support the self-sufficiency of residents of FHA-insured and assisted properties and the sustainability of the center. The **Certified** (Level 2) Centers have achieved and exceeded the Designated status and actively operate programs designed to support residents' self-sufficiency. This level must be achieved by the end of Year 2.
- Failure to meet the requirements may result in cancellation of the ODE and return of the money to HUD.
- Once the ODE has been fully disbursed, operating funds may not be used for salaries of Neighborhood Network staff.

If there are any questions about these requirements, please contact Norman Dailey by phone at 202-708-0614, extension 8371, or by email at Norman_Dailey@hud.gov.